STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

MEETING NOTICE

DATE: Thursday, October 25, 2001

TIME: 10:00 a.m.

PLACE: SENATE APPROPRIATIONS ROOM 109

AGENDA

- Call to Order

- Approval of Minutes of October 4, 2001.

- DIRECTOR'S REPORT (if necessary).

1. ARIZONA STATE PARKS - Review of State Lake Improvement Fund Projects.

2. SCHOOL FACILITIES BOARD - Review of FY 2002 Building Renewal Allocation Plan.

3. ARIZONA DEPARTMENT OF ADMINISTRATION/ARIZONA STATE SCHOOLS FOR THE DEAF AND BLIND - Review of Scope, Purpose, and Estimated Cost of Construction of a New Transportation Building at the Phoenix Campus.

4. ARIZONA STATE UNIVERSITY - Review of Scope, Purpose, and Estimated Cost of Digital Television Conversion.

5. ARIZONA BOARD OF REGENTS - Follow-Up Report on the Use of Certificates of Participation Versus Bond Financing.

6. UNIVERSITY OF ARIZONA - Report on Lease-Purchase Projects.

The Chairman reserves the right to set the order of the agenda.
10/19/01

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HOUSE OF REPRESENTATIVES

MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, October 4, 2001

The Chairman called the meeting to order at 9:35 a.m. Thursday, October 4, 2001 in Senate Appropriations Room 109 and attendance was noted.

Members:	Senator Solomon, Chairman	Representative Knaperek, Vice Chairman
	Senator Bennett	Representative Cheuvront
	Senator Brown	Representative Gray
	Senator Cirillo	Representative Pearce
	Senator Guenther	Representative Weason
	Senator Hamilton	
Absent:	Senator Mitchell (Excused)	Representative Allen
		Representative Lopez
Staff:	Richard Stavneak	Jan Belisle, Secretary
	Lorenzo Martinez	Tim Sweeney
	Chris Earnest	Jill Young
	Tony Vidale	
Others:	Debbie Johnston, Senate	Tim Brand, ADOA
	Bruce Ringwald, ADOA	Greg Fahey UofA
	Dr. Owen Cargol, NAU	Sam Polito, NAU
	Josh Allen, NAU	Blake Anderson, ASU
	Travis Mallen, House	Jay Ziemann, State Parks
	Paul Davenport, Press	David Harris, ABOR
	Charlene Ladet, UofA	Jamie Hogue, House

Representative Knaperek moved the Committee approve the minutes of August 30, 2001 as presented. The motion carried.

Chairman Solomon asked that the minutes reflect Senator Mitchell is excused from the meeting.

Chairman Solomon introduced Dr. Owen F. Cargol, President, Northern Arizona University (NAU). Dr. Cargol stated that he appreciates the honor extended to him. He is an advocate for Northern Arizona University and extended thanks for the bonding authority that has been granted to the university and the Board of Regents so that very critical needs can be addressed on the campus at NAU. At the request of the Governor, NAU plans to return $4.7 million due to the economic problems. There are a number of critical situations at the Flagstaff campus due to a number of years of neglect of the physical plant. There are critical issues with the utility infrastructure and there are a large number of fire and life safety issues that need to be addressed.

ARIZONA BOARD OF REGENTS/NORTHERN ARIZONA UNIVERSITY - Review of Revised Multi-Year Bonding Plan and Consider Approval of Bonding Projects.

Lorenzo Martinez, JLBC Staff presented the request that the Committee review the revisions to the Northern Arizona University (NAU) Multi-Year Bonding Plan and approve the issuance of bonds for the projects in the revised plan. The JLBC Staff recommends a favorable review of the multi-year bonding plan and approval of the projects within that plan. The bond issuances total over $62.9 million and the JLBC Staff recommendation includes two stipulations:

1) the debt service on any projects that benefit non-academic activities be cost allocated among the programs receiving benefit. NAU anticipates that all of the projects will benefit only academic programs and the debt service will come from tuition collections.

If there needs to be a cost allocation, the JLBC Staff recommends that NAU report by:

2) December 1, 2001 to the Committee a preliminary estimate of the debt service for any projects requiring cost allocation of debt service requirements.

In addition, one of the projects, the Central Dining Renovation includes $83,000 for equipment. JLBC Staff recommends that monies not be spent on equipment whose life is significantly shorter than the 30-year repayment period of the bond issuance.

Mr. Martinez reviewed *Table 2* of the memo, which listed the projects. There are 19 projects to be financed with the $63 million bond issuance. A majority of the projects involve renovation of existing buildings. *Table 3* of the memo shows debt service required for each project. In FY 2003 NAU will allocate $4 million appropriated as decision package funding to offset the loss of operating tuition collections that will be used for debt service. Starting on page 3 of the memo, there are descriptions of the individual projects. In combination with these projects, part of the overall capital development plan for NAU also includes the issuance of $26.4 million in Certificates of Participation (COPs). The repayment of those COPs will come from Proposition 301 monies.

In reply to Chairman Solomon, Mr. Martinez referred to page 4 of the memo, which contains a description of the central dining renovation. This project includes the purchase of a stage, sound system, lighting equipment, and a video screen and data projection system. NAU representatives have indicated they are okay with taking that component out given that the life of the equipment is shorter than the bond repayment period.

In reply to Representative Knaperek regarding Proposition 301 monies and concern that the estimated revenue may fall short, Mr. Martinez stated that NAU is aware that changes may occur in the revenue and will adjust accordingly those projects that will be financed with COPs.

Representative Weason asked about the $83,000 cost for the dining room renovation. Mr. Martinez stated that the issue of long term financing for equipment has been discussed by the Committee in the past. The equipment to be purchased has a life span that is significantly shorter than the repayment period. The repayment period is 30 years, the life of the proposed equipment is significantly less than 30 years.

Chairman Solomon welcomed Senator Bennett to the Committee.

Senator Bennett asked if there were other authorized bonds other than what is listed in the memo. Mr. Martinez referred to page 2, *Table 1*, which lists the amount of authorized bonding authority for each university as it currently exists. The Legislature is required to authorize the bonding authority. There have been bonds authorized in the past, which are on the books and are currently being paid off. The last estimates for the university system as a whole were in the area of $772 million of original bond issuances. The estimated payment in FY 2002 is $61.8 million.

In reply to Representative Knaperek, Josh Allen, Vice President, Business Administration, NAU stated that the projects are an absolute priority for the university. Overall, there is much more Proposition 301 funding allocated to NAU by the Regents. Based on the action today and ultimately subsequent action by the Board of Regents in November for authorization to sell the bonds, NAU would go to market and look to be selling bonds in January. This is a priority that needs to be done or we risk failure in many of the facilities.

Representative Knaperek moved that the Committee give a favorable review of the revisions to the NAU multi-year bonding plan and the Committee approve the issuance of $62,918,300 in revenue bonds for the 18 projects in the plan with the following stipulations:

- *The debt service requirements on any project that benefits non-academic activities shall be cost allocated among the programs receiving direct benefit from the project.*
- *By December 1, 2001, NAU report to the Committee a preliminary estimate of the debt service for any projects requiring cost allocation of debt service requirements.*
- *The $83,000 equipment component of the Central Dining Renovation project not be funded with bond proceeds.* The motion carried.

UNIVERSITY OF ARIZONA - Review of Scope, Purpose, and Estimated Cost of Digital Television Conversion.

Lorenzo Martinez, JLBC Staff presented the request that the Committee review the conversion of the University of Arizona (UofA) public television station, KUAT, to digital broadcasting by 2003 as required by the Federal Telecommunications Act of 1996. The JLBC Staff recommends a favorable review of the request. In FY 2002 the Legislature appropriated $2,500,000 for UofA and $1,500,000 for Arizona State University to convert their public television stations to digital format. The UofA will use the monies to install two transmitters for digital broadcasting and also for equipment in their studio on the main campus.

In reply to Chairman Solomon, Mr. Martinez stated that discussions with ASU have indicated that the project is almost complete. The JCCR statutes require JCCR review of the expenditure of any monies appropriated for capital projects. ASU found other funding sources to start their project early. ASU plans to come before the Committee next month and present their plan of using the $1.5 million appropriation to reimburse those fund sources that funded the early start of the project.

In reply to Representative Knaperek, Mr. Martinez stated that digital conversion is mandated by the Federal Telecommunications Act of 1996. This project has been requested by the universities in prior years and this biennium the Legislature made an appropriation to help fund the conversion. If public stations do not convert to broadcasting by 2003 they will have to give up their broadcasting license and will no longer be able to provide that service.

In reply to Representative Weason, Mr. Martinez stated that he was not aware of an appropriation of $7 million to help private industry convert to digital. Mr. Martinez said that he would research the information requested.

Representative Gray asked why there was an increase from the original estimates for the UofA project. Mr. Greg Fahey, UofA stated that in terms of the financing for the project, the agreement with the Legislature was that this was a matching fund effort. They only asked for part of the money and the rest would be raised privately or from federal grants. There is $2.5 million coming from the Legislature and the other $4 million plus would be raised privately or come from federal grants. UofA has raised approximately $2 million from other sources.

Mr. Jack Harris, UofA, KUAT TV stated that when the project was started a number of years ago, they have been to the Legislature 3 times seeking an appropriation. The transmitter site is on Mt. Bigelow in the Catalina Mountains. Mt. Bigelow is in a protected area because of the Mexican Spotted Owl and there is a very short construction season there. They are only able to build certain times of the year. The owl is a protected species and their nesting season is from March until the end of August of each year and they are unable to construct during that period of time. This was not known at the time the project was started. This is the main reason for the increase of cost and prices. UofA is trying to get permission to do the construction from the Forest Services and Federal Game and Fish Commission. To meet the mandate in 2003 there will only be two construction periods to complete the project. If the construction could be continuous it would take approximately a year to construct the tower. It has taken two years to obtain the construction permit from the Federal Communications Commission in order to do the construction. This was due to the closeness with the Mexican border. UofA had to go through the Federal Communications of the U.S. and the Mexican Government to get permission for the construction. They have not asked for an extension beyond the May of 2003 deadline. The Federal Communications allows you to ask for two 6-month extensions, but they will not allow those extensions due to lack of funding.

In response to Representative Knaperek, Mr. Harris stated that they have $671,000 from a federal grant and the other money is being raised locally through foundations and the private sector. The Federal Government does not allow extensions due to financial problems. UofA will be granted permission to construct during the non-spotted owl nesting season, so that will not be an excuse for not constructing.

Mr. Fahey responded to questions stating that because of the federal mandate they have to keep moving for the good of the university and the state with this project.

Representative Pearce and Chairman Solomon expressed concerns regarding federal mandates.

Representative Knaperek moved that the Committee give a favorable review of the scope, purpose and estimated cost of the University of Arizona digital television conversion project. By a show of hands, the motion carried.

ARIZONA STATE PARKS - Report on Potential Condemnation of Land Adjacent to Kartchner Caverns State Park.

Tim Sweeney, JLBC Staff presented the report on the consideration of the condemnation of private property adjacent to Kartchner Caverns State Park if mutual agreement on the sale of the property cannot be reached between State Parks and the property owner. This is brought before the Committee at the request of the Chair. A privately owned 180-acre parcel of land adjacent to Kartchner Caverns State Park is being considered for development as a luxury resort. The Parks Department believes subsurface water flows from the resort could endanger Kartchner Caverns. The department will consider acquiring the property through condemnation at its October meeting if a mutual agreement on the sale of the property cannot be reached. There are two options available for acquiring the land: 1) the department could purchase the land in a friendly sale and 2) the land can be condemned. Heritage Fund monies can be used to purchase the land which does not require Committee approval or review. If the department condemns the land, they will seek to use State Parks Enhancement Fund monies that would require Committee approval. An attempt to buy the land has been offered but not accepted by the private owner. Another appraisal has been done and another offer will be made.

In reply to Senator Brown, Mr. Sweeney stated that the department feels that 152 acres is necessary to protect the cave. The remaining acres could be developed but would probably not be enough space for a resort.

In reply to Senator Brown Mr. Jay Ziemann, Assistant Director, Arizona State Parks stated that the appraisal would be made public.

In reply to Senator Guenther, Mr. Ziemann stated that in 1988 when Kartchner Caverns was purchased the length of the cave system or the subsurface water flows were unknown. Once the cave becomes polluted, it is too late to do anything about it. An offer was made to purchase the 180 acres and the owner was not responsive to the offer. He proceeded to review the map of *"A Probable Water Route from Parcel to Cave."*

In response to further questions, Mr. Ziemann stated that the 160 acres of the property is owned by Helmit Horn, Principal of the Coastal Hotel Group that is based out of Chicago. The remaining 40 acres is owned by a local developer Ernie Graves and it is part of the Whetstone Ranch that consists of 15,000 acres. The State Parks would consider an exchange but the owner has not expressed an interest in exchange.

In reply to Representative Weason, Mr. Ziemann stated there were approximately 100 bats left in the cave and because of the warm weather they have not completely left the cave.

No Committee action was required.

The meeting adjourned at 10:50 p.m.

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Jan Belisle, Secretary

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Lorenzo Martinez, Senior Fiscal Analyst

____
Senator Ruth Solomon, Chairman

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams.

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CHRISTINE WEASON

DATE: October 19, 2001

TO: Senator Ruth Solomon, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Timothy Sweeney, Fiscal Analyst

SUBJECT: ARIZONA STATE PARKS - REVIEW OF STATE LAKE IMPROVEMENT FUND PROJECTS

Request

Pursuant to A.R.S. § 5-382 the Arizona State Parks Board requests the Committee review State Lake Improvement Fund (SLIF) projects totaling $13,455,800 for FY 2002.

Recommendation

Due to the size of the SLIF balance, the House of Representatives is considering whether to transfer $10 million to the General Fund in FY 2002 (see Options List of October 17). As a result, the Committee has the policy decision of whether to recommend a favorable review of the request at this time. From a technical perspective, the proposed grants are consistent with SLIF statutes.

The SLIF has cash balances of $31.1 million. Much of this, however, has been obligated to prior year grants. Before the allocation that is being that is being requested, the SLIF unobligated balance is $15.5 million. This balance is based on revenues that were received in FY 2001. The requested amount would reduce this unobligated balance to $800,000.

If the committee favorable reviews the request, all but $800,000 of the current $15.5 million unobligated balance would become obligated. The legislature, however, could still take action to transfer FY 2002 SLIF monies to the General Fund. Through FY 2002, the SLIF will continue to generate revenues that will remain in the fund balance until grants are considered at this time next year. It is estimated that SLIF will have an unobligated balance of $11.6 million at the close of FY 2002.

(Continued)

Analysis

A.R.S. § 5-382 requires the Arizona State Parks Board to submit all proposed capital projects funded from the SLIF to the Committee for review. SLIF revenues are derived from a portion of watercraft license fees and an allocation of gasoline tax attributable to watercraft use. Monies in the fund are available to state agencies, counties and local governments for projects on waters where boats are permitted. The use of SLIF monies is restricted to improvements and acquisitions of real and personal property as specified in statute.

The Arizona Outdoor Recreation Coordinating Commission (AORCC), established under A.R.S. § 41-511, reviews eligible projects and presents a list of recommendations to the Arizona State Parks Board. A rating criteria is used to determine which projects are recommended. The criteria evaluates each project on several factors including project design, community involvement, and conditions of current infrastructure. There is also a stipulation that no entity may receive more than 20% of the available grant resources. Using this criteria, AORCC and the Parks Board have approved 35 projects/grants for funding in FY 2002 at a total cost of $13,455,800. These include:

- 21 grants totaling $10,660,300 to city and county governments for purposes including lake safety enforcement equipment, marina and boat ramp development, and lake park facility improvements.
- 14 projects totaling $2,795,500 for capital improvements at state parks. Projects include restroom facility construction and renovations, safety related equipment, and other improvements necessary to comply with the Americans with Disabilities Act (ADA) and with clean and wastewater standards.

The following lists the 3 projects with the highest grant amounts.

- Lake Havasu City - $5,100,000 is provided to acquire 18 acres of State Trust land near the London Bridge. This property is a fully developed lakefront park, and the Land Department is currently leasing it to the city. The lease will not expire until 2014. The park has existing facilities funded through previous SLIF grants, including ramadas, restrooms, trash facilities, information kiosks, and beaches. This project will receive 38% of available monies. In the past, Parks Board policy has limited grant awards to any one entity to no more than 20% of available monies.
- City of Yuma - $1,000,000 to enhance recreational opportunities at the Riverfront Gateway Park, located in the city's National Heritage Area. The project includes a boat dock, an ADA compliant fishing pier, a trail, ramadas, a kiosk, parking, and marking buoys.
- State Parks - $1,000,000 for acquisition and planning of non-natural area state park lands. The focus for these funds will be on recreation, cultural, and boating state park properties and lands adjacent to existing state parks. These funds are for Lake Havasu State Park only.
- The remaining 32 grants and projects are each less than $1,000,000.
- Attachment A lists all the projects.

These grants are made using FY 2001 SLIF revenues. The following table summarizes SLIF FY 2001 revenues and expenditures:

State Lake Improvement Fund		
Ending FY 2001 Carry Forward Balance	$	15,519,000
Operating Budget (11.8%)		(1,246,700)
AZ State Parks Projects		(2,795,500)
Grants to Outside Entities		(10,660,300)
Unobligated Balance	$	816,500

AORCC sets a standard that 11.8% of the revenue go to the administrative operating budget, while 88.2% remains available for grants and projects. Of the grants and project money, no more than 30% may go to projects at State Parks. The $2,795,500 going to State Parks projects represents 20.8% of the total $13,455,800 in grants and projects.

RS/TS:jb

Attachment A

	Recipient	Project	Grant Amount
1	Lake Havasu City	London Bridge Beach Acquisition	$5,100,000
2	City of Yuma	Gateway Park: Heritage Crossings	1,000,000
3	Maricopa County	Boating Safety Education & First Aid Station	756,760
4	Mohave County	Willow Beach Fishing Pier	693,990
5	Bullhead City	Rotary Park	647,425
6	Apache County	River Reservoir Improvement	412,810
7	Maricopa County	Boathouses at Canyon & Saguaro Lakes	309,389
8	Apache County	Tennel Reservoir Improvement	249,550
9	City of Winslow	Renovation & Expansion of McHood Park	240,280
10	Mohave County	South Telephone Cove: Phase II	148,000
11	Apache County	Bunch Reservoir Improvement	145,835
12	Mohave County	South Cove Picnic Area: Phase II	135,000
13	Town of Payson	Green Valley Lake Improvements	125,000
14	La Paz County	Bill Williams Recreational Angling Development	115,600
15	Mohave County	Princess Cove Picnic Area: Phase II	108,835
16	Lake Havasu City	Watercraft Upgrade	107,034
17	La Paz County	Boating Safety Training Center Improvement	97,600
18	Bullhead City	Multi-Purpose Watercraft	95,906
19	Bullhead City	Watercraft Safety Program	82,800
20	Mohave County	Temple Bar Picnic Shelters: Phase II	71,500
21	La Paz County	Patrol Boat Engines	17,000
	Total-Outside Entities		$10,660,314
1	Statewide	Park Land Acquisition and Planning	$1,000,000
3	Lyman Lake	Maintenance Building/continued	300,000
4	Buckskin-River Island	Build-Out/continued	280,000
5	Patagonia Lake	Build-Out/continued	255,000
2	Statewide	Improvements	150,497
6	Roper Lake	Contact Station/continued	150,000
7	Statewide	ADEQ Compliance	150,000
8	Statewide	Boating Parks Capital Equipment	150,000
9	Alamo Lake	Site Improvements	120,000
10	Cattail Cove	Site Improvements	85,000
11	Statewide	ADA compliance	75,000
12	Statewide	Materials Fund	50,000
13	Statewide	Cultural Site Clearance	15,000
14	Statewide	Environmental Site Clearance	15,000
	Total-State Parks		$2,795,497

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HOUSE OF REPRESENTATIVES

DATE: October 19, 2001

TO: Senator Ruth Solomon, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Chris Earnest, Senior Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD - REVIEW OF FY 2002 BUILDING RENEWAL ALLOCATION PLAN

Request

The School Facilities Board (SFB) requests that the Committee review its proposal to distribute $122.8 million of Building Renewal Fund monies for FY 2002, pursuant to A.R.S. § 15-2031.

Recommendation

Due to the size of the fund's balance, the House of Representatives is considering whether to reduce the building renewal allocation by $40.0 million in both FY 2002 and FY 2003 as part of its budget options (see Options List of October 17). As a result, the Committee has the policy decision of whether to recommend favorable review of the request at this time. From a technical perspective, the SFB proposed distribution plan is consistent with statute.

According to statute, the SFB is to distribute $61.4 million, or one-half of the proposed $122.8 million, in November. The remaining half would be distributed in May 2002. Once monies are distributed to districts, there is no means for the Legislature to transfer them back to the General Fund. Therefore, if a favorable review is given and the full November distribution is made, no more than $61.4 million could be transferred back to the General Fund in FY 2002. *Attachment 2* provides information on each district's building renewal balance as well as their FY 2000 distribution and expenditure amounts.

The JLBC Staff does recommend that in the future SFB utilize the prior year distribution amounts in the renovation component of the building renewal formula for districts that fail to report building renewal expenditures. In the formula, renovation expenditures effectively reduce the age of buildings, thus reducing the amount of building renewal distributed to a district. Currently, if a district does not report renovation expenditures, the SFB does not include any adjustment for the renovation component of the formula. Failing to include renovation expenses for non-reporting districts, creates an incentive for districts not to report. Last year, 80 of the 230 districts did not report building renewal expenditures.

(Continued)

Analysis

The Building Renewal Fund is established by A.R.S. § 15-2031 to provide funding for school districts to maintain the adequacy of existing school facilities. Building renewal monies are intended for major renovations and repairs, upgrading systems to extend the life of a building, and infrastructure costs on academic buildings owned by a district. Statute requires the JCCR to review the board's plan for distributing Building Renewal Funds to school districts prior to their being allocated. For FY 2002, the board plans to distribute a total of $122.8 million from the Building Renewal Fund. The proposed allocation to each district appears in *Attachment 1*. A.R.S. § 15-2031 (E) requires that these amounts be distributed in two equal installments in November and May. Under SFB's proposed plan, they would distribute $61.4 million next month and the remaining amount in May 2002.

According to the SFB's instruction, the State Treasurer transferred $132 million to the Building Renewal Fund on January 1, 2001 for distribution to districts in FY 2002. This instruction was based on building age, square footage, and construction cost inflation data that was available in the fall of 2000. Based on that data, the formula indicated a transfer of $122.8 million. The SFB, however, increased this amount by $9.3 million to $132 million, expecting additional inflationary changes prior to the first distribution in November of FY 2002. The SFB has since been advised by the Attorney General's Office that the FY 2002 distribution must be based solely on the formula data available last year and not incorporate any inflationary or other changes that have occurred since. Consistent with this guidance, the SFB plans to distribute only the $122.8 million that the formula dictated in the fall of 2000. The additional $9.3 million will remain in the fund unless action is taken by the Legislature to revert it to the General Fund.

The proposed $122.8 million distribution for FY 2002 is equal to the amount that was allocated in FY 2001. This is because prior to disbursing the FY 2001 monies, the SFB updated the formula based on fall 2000 data. This is the same data that was used to calculate the FY 2002 disbursement formula. Again, however, based on the advisement from the Attorney General, SFB is not updating the FY 2002 formula prior to disbursing the monies. This means that the FY 2002 disbursement will not incorporate the most recent formula data and will be equal to the FY 2001 disbursement.

Data such as construction cost inflation has changed since last year's original FY 2002 calculation. For example, in the August 2001 JLBC meeting, the Committee approved a 0.6% increase in the construction cost factor. The Committee recommended that the approved inflation factor be applied to the FY 2002 disbursement. The Committee's recommendation was consistent with legal advice from Legislative Council, who believes that the adjustments should take effect during the current year (i.e. FY 2002). Based on the advice of the Attorney General, however, the SFB has not updated the FY 2002 disbursement for the approved inflation factor. Instead, they will incorporate the 0.6% cost increase into the calculation that is made for the FY 2003 disbursement. Additionally, school districts are required to report building age, square footage, and renovation costs annually by September 1. The information that was required for the September 1, 2001 report will not be used to update the FY 2002 disbursement, but will instead be used to calculate the FY 2003 disbursement.

Representative Knaperek, JLBC Chair, has requested an Attorney General's opinion on when available data should be applied to the formula. Based on preliminary conversations with the Attorney General's office, we believe that they will confirm in writing their earlier oral advice.

Prior Year Renovations

The age of a building is an important factor in the building renewal formula. To the extent that a building has been renovated, however, the age used in the formula is "discounted" by the cost of the renovation. Each district's renovation expenses from the Building Renewal Fund are incorporated into the formula and effectively reduce the age of the district's buildings. By reducing building age, the amount of building renewal money that is distributed to the district in the following year is also reduced.

(Continued)

Districts are statutorily required to annually report their renovation expenses by October 15. The expenses are self-reported and are not verified by SFB staff. If a district fails to report their expenses by the deadline, SFB does not include any renovation expenses in that district's disbursement formula for the following year. Therefore, if a district expends money on renovations, but fails to report it, their distribution for the next year is not reduced by the renovation expense factor. Failing to include any renovation expense for non-reporting districts, creates an incentive for districts not to report. Last year, 80 of the 230 school districts failed to report by the October 15 deadline.

The JLBC Staff recommends that instead of excluding renovation expenses for non-reporting districts, the SFB should enter the amount distributed to the district in the prior year as the formula renovation expense number. Assuming that non-reporting districts are expending all of their disbursements creates an incentive for all districts to report by the statutory deadline. Making this assumption also ensures that the formula does not under value the renovations that have taken place statewide, which may have lead to over funding the Building Renewal program.

Renovations completed with Deficiencies Correction monies are also used to discount the formula age of district buildings. Given, however, that the majority of Deficiency Correction projects have not been completed, the expenditure of the $1.1 billion in projects has not yet radically impacted the formula distribution. Statutorily, all Deficiency Correction projects must be completed by June 30, 2003. The SFB staff expects that the bulk of expenditures from the Deficiency Correction Fund will be included in the formula calculation in the fall of 2002 and 2003 which will reduce the Building Renewal Distribution in FY 2004 and FY 2005.

District Balances

Building Renewal monies that are disbursed to the districts remain on balance with the district until renovation expenditures are made. The FY 2000 ending balance for all districts was $95.7 million. This amount is 116% of the $82.5 million that was distributed that year. If it is assumed that the 80 non-reporting districts actually expended all of their disbursements, the balance would be reduced to $78.7 million, which is 95% of the FY 2000 distribution. There are two different perspectives concerning the high balances. On the one hand, districts may be saving their funds for future projects. On the other hand, the $1.1 billion Deficiencies Correction program may have reduced the need for building renewal in the past few years. Although the bulk of Deficiencies Correction has yet to be expended, districts may be delaying building renewal projects, anticipating that those projects will be completed with Deficiencies Correction monies.

Because of the size of district building renewal balances, the House is considering a budget reduction option to reduce the FY 2002 and FY 2003 building renewal distribution (see Budget Reduction Option List of October 17). As a result, the Committee has the policy decision of whether to recommend favorable review of the proposed distribution at this time. According to statute, the SFB would distribute $61.4 million, or one-half of the proposed $122.8 million, in November. The remaining half would be distributed in May 2002. Once monies are distributed to districts, there is no means for the Legislature to transfer them back to the General Fund. Therefore, if a favorable review is given and the full November distribution is made, no more than $61.4 million could be transferred back to the General Fund in FY 2002.

Attachment 2 provides information on district balances as well as FY 2000 disbursement and expenditure amounts. The 80 districts that did not report are listed in bold on the attachment. On the far right of the spreadsheet is a column titled "Balance/Disbursement Ratio." We added this column as an indication to the size of each district's Building Renewal balance relative to their FY 2000 disbursement. Because the distribution is determined by a formula intended to capture what a district's average annual building renewal expenditures should be, the balance/disbursement ratio illustrates how much a district has in

(Continued)

reserve relative to what the formula says they should be expending in an average year. For example, a balance/disbursement ratio of 100% means that a district has a balance equal to one year's worth of their formula funding. Among reporting districts, balance amounts range from a few districts that have ratios less than 5% to a few districts that have balances close to 200%.

Districts are in the process of reporting their FY 2001 Building Renewal expenditure and balance information to SFB. The JLBC Staff will continue to monitor and keep the Committee informed of district balance levels.

RS/CE:jb
Attachments (2)

STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

DATE: October 19, 2001

TO: Senator Ruth Solomon, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION/ARIZONA STATE SCHOOLS FOR THE DEAF AND BLIND - REVIEW OF SCOPE, PURPOSE, AND ESTIMATED COST OF CONSTRUCTION OF A NEW TRANSPORTATION BUILDING AT THE PHOENIX CAMPUS

Request

The Arizona Department of Administration (ADOA) requests a favorable review of the construction plan for a new transportation building at the Arizona State Schools for the Deaf and Blind (ASDB) Phoenix campus.

Recommendation

From a technical perspective, the ASDB proposal is consistent with the original intent of the appropriation. This project is listed as a possible budget reduction in the October 17 list of House options. As a result, the Committee has the policy decision of whether to recommend a favorable review of the request at this time. Of the $427,700 appropriated for the project, $323,800 will be for construction and the remainder will be used for planning and design, demolition, asbestos abatement, project management, and contingencies.

Analysis

Laws 2001, Chapter 237 (Capital Outlay Bill) appropriated $427,700 from the General Fund to ADOA in FY 2002 to demolish the current transportation building at the ASDB Phoenix campus and to replace it with a new one. The current building, which existed on the property when it was purchased in 1967, is a 1,939 square foot house. Structural problems with the roof, rundown conditions, and the presence of asbestos all make renovation impractical. In addition, the problems with the roof have forced ASDB to board up 325 square feet of the building, and 108 square feet of the building space is a basement, which is unavailable for office use. Therefore, the building has only about 1,500 square feet of available space.

(Continued)

This space is insufficient to house the existing needs of the Transportation Program, which has increased from 9 daily routes to 27 daily routes in the last 15 years. The new structure would be a 4,350 square foot modular building, of which 1,750 square feet would be dedicated to office space, and 2,600 square feet would be used as a warehouse. Presently, the campus does not have a central, accessible consolidated location for storage. The costs of the project components appear reasonable. The following table summarizes the estimated costs of the project.

Item	Estimated Cost
Architectural Planning and Design	$ 33,200
Construction	323,800
Asbestos Study and Abatement	18,900
Demolition of Existing Structures	16,000
Project Management	1,100
Contingency Allowance	34,800
TOTAL	$**427,700**

The project is estimated to be bid the last week of November and is expected to be completed by May, 2002.

RS/JC:jb

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DATE: October 19, 2001

TO: Senator Ruth Solomon, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Senior Fiscal Analyst

SUBJECT: ARIZONA STATE UNIVERSITY - REVIEW OF SCOPE, PURPOSE, AND ESTIMATED COST OF DIGITAL TELEVISION CONVERSION

Request

Arizona State University (ASU) is requesting Committee review of the expenditure plan for appropriated monies for the conversion of the ASU public television station, KAET, to digital broadcasting as required by the Federal Telecommunications Act of 1996.

Recommendation

The JLBC Staff recommends a favorable review of the request. The expenditure plan will use a $1,500,000 General Fund appropriation to reimburse fund sources that helped finance an early start for the project. Total project cost is estimated to be $4,900,000. The project will be funded from the General Fund appropriation of $1,500,000, $1,000,000 from a federal grant, and $2,400,000 from gifts.

The Committee favorably reviewed a similar conversion project for the University of Arizona (UofA) at its last meeting.

Analysis

The Federal Telecommunications Act of 1996 mandates public television stations to be converted to digital broadcasting by May 2003. Laws 2001, Chapter 237 (Capital Outlay Bill) appropriated General Fund monies in FY 2002 totaling $1,500,000 for ASU and $2,500,000 for UofA to convert their public television stations to digital format. The Committee favorably reviewed the scope, purpose, and estimated cost of the UofA project at its last meeting.

The ASU project requires the purchase and installation of equipment necessary to allow their public broadcasting station, KAET, to produce and broadcast digital television programs. The project will require construction and installation of new equipment at the transmitter site on South Mountain and the studio on the ASU campus. The attached ASU submission includes additional detail for the project.

(Continued)

The UofA project also involved the construction and installation of new equipment at the transmitter sites and the studio on the UofA campus. The total cost of the UofA project is estimated to be $7,105,500, which will be funded by a FY2002 General Fund appropriation of $2,500,000 and $4,605,500 from gifts.

RS/LM:jb

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PHONE (602) 542-5491

FAX (602) 542-1616

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HOUSE OF REPRESENTATIVES

DATE: October 18, 2001

TO: Senator Ruth Solomon, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Senior Fiscal Analyst

SUBJECT: ARIZONA BOARD OF REGENTS - FOLLOW UP REPORT ON THE USE OF CERTIFICATES OF PARTICIPATION VERSUS BOND FINANCING

Request

The Arizona Board of Regents (ABOR) has submitted information on the review process followed by ABOR for university capital projects. The information is submitted as a follow up to a request from the Committee on the use of Certificates of Participation (COP) and bond financing for university capital projects.

Recommendation

This item is for information only and no Committee action is required. ABOR will be considering draft guidelines for the use of COPs as capital financing. JLBC Staff recommends that any capital financing guidelines adopted by ABOR be submitted to the Committee for its comments.

Analysis

At its August 30, 2001 meeting, the Committee received a report from ABOR on the cost effectiveness of COP versus bond financing. The Committee requested that ABOR submit additional information on any established guidelines used for determining whether COP financing or bond financing should be used on projects.

ABOR currently does not have any established guidelines; however, the information submitted indicates that capital projects receive multiple reviews by ABOR before final approval is granted. Included in the process is review of the proposed project financing. The attached letter from ABOR contains additional detail on items considered during project review.

At its September meeting, ABOR directed the universities and its staff to draft guidelines for the use of COPs as a financing mechanism for capital projects. The guidelines are being developed and will be submitted to ABOR at a future date. The JLBC Staff recommends that any guidelines adopted by ABOR be submitted to the Committee for its comments.

RS/LM:jb

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PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

DATE: October 19, 2001

TO: Senator Ruth Solomon, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Senior Fiscal Analyst

SUBJECT: UNIVERSITY OF ARIZONA - REPORT ON LEASE-PURCHASE PROJECTS

Request

The University of Arizona (UofA) is submitting a report on the issuance of Certificates of Participation (COPs) to finance the Expansion of the Ina E. Gittings Facility, Highland District Planning and Site Preparation, Completion of Shell Space and Replacement of Plaza Deck, and Arizona International College (AIC) Facilities.

Recommendation

This item is for information only and no Committee action is required. UofA plans to issue approximately $26,400,000 in COPs to finance the projects. The debt service on the issuances will be funded from a variety of sources.

Analysis

Current statutes do not require legislative approval or review of university projects financed with COPs, also known as lease-purchase agreements. In May 2000, the Arizona Board of Regents (ABOR) and the universities agreed to a request that university lease-purchase projects approved by ABOR be submitted to the Committee as informational items. This request was made given that COP financed projects could have direct General Fund operating impacts or indirect General Fund operating impacts as a result of tuition revenue repaying the COPs rather than being available for operating budgets.

At its September 2001 meeting, ABOR approved the issuance of up to $26,400,000 in COPs for 4 projects. The repayment period is not to exceed 25 years. *Table 1* lists the capital project costs and the JLBC Staff estimate for the annual debt service (at a 5.2% interest rate) on each project.

(Continued)

Table 1

UofA Lease-Purchase Projects

	COP Issuance	Annual Debt Service	Debt Service Fund Source
Gittings Expansion 1/	$ 3,000,000	$ 217,100	Approved Tuition with General Fund Offset
Highland District Planning & Site Preparation	7,500,000	542,900	Indirect Cost Recovery/Investment Income
Shell Space Completion & Plaza Deck Replacement 2/	10,440,000	755,700	Indirect Cost Recovery
AIC Facilities	5,400,000	390,900	Approved General Fund Decision Package Funding
TOTAL	$26,340,000	$1,906,600	

1/ Total project cost is $9,000,000. Additional $6,000,000 will be funded from gifts.
2/ Total project cost is $13,100,000. Additional $2,660,000 will be funded with federal grants.

Gittings Expansion Project
UofA plans to expand the Ina E. Gittings Facility to provide 25,600 gross square feet of new space for the School of Music and Dance. The project will add instructional laboratory (studio) space, performance (theatre) space, and support space. The total project cost is $9,000,000. Of the total amount, $6,000,000 will come from gifts and $3,000,000 will be financed with COPs. UofA received a General Fund increase in FY 2002 and FY 2003 to offset the loss of tuition revenues that will be used to pay the debt service on the COPs.

Highland District Planning and Site Preparation
UofA will issue $7,500,000 in COPs to finance site work and infrastructure and utility expansions in preparation for future construction of a Campus Health Services Facility, Disability Resource Center, and Residence Life Facilities. Debt service will be funded from indirect cost recovery and investment income (non-appropriated funds).

Shell Space Completion and Plaza Deck Replacement
The UofA plans to complete and reconfigure 26,230 gross square feet of research space at the Health Sciences Center (HSC) Animal Facilities, and the Central Animal Facility and Life Sciences South facility on the main campus to ensure compliance with the Federal Animal Welfare Act and Public Health Sciences standards. The plaza deck at the HSC will also be replaced. The total project cost is $13,100,000. Of the total amount, $10,440,000 will be financed with COPs and $2,660,000 will be funded with federal grants. Debt service on the COPs will be funded from indirect cost recovery revenue.

Arizona International College Facilities
As part of a joint agreement with the Pima County Community College District (PCCD), UofA will construct a 22,000 gross square foot building on the PCCD campus and relocate the Arizona International College (AIC) to the new site. AIC is currently located on the UofA main campus. UofA will issue $5,400,000 in COPs to finance the project. UofA will use a portion of decision package funding appropriated in FY 2002 and FY 2003 for debt service.

RS/LM:jb